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SUBJECT: CAPITAL MARKETS BOARD CHAIRMAN'S AMBITIOUS AGENDA

This cable was coordinated with Congen Istanbul.

[11.](#) (Sbu) Summary. Turkey's securities markets regulator has an ambitious agenda for 2005-6: opening a futures and options exchange in Izmir, EU harmonization of capital market regulations, founding a NASDAQ-like stock exchange for SME's, and launching a secondary mortgage market. The coming changes in capital markets are signs of the transition in the Turkey towards a more normal, low-inflation, low-interest rate economy. Private sector contacts are skeptical both about the Capital Markets Board's agenda and the efficacy of the Capital Markets Board in general. End Summary.

Izmir Futures and Options Exchange:  
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[12.](#) (Sbu) In recent meetings, Dogan Cansizlar, Chairman of Turkey's Capital Markets Board (CMB), has laid out a series of initiatives that he hopes to bring to fruition in the next year or two. The most imminent of these initiatives is a futures and options trading exchange to be located in the port city of Izmir. Cansizlar hopes that the Izmir exchange will be up and running by the end of 2004. Cansizlar said that the Izmir exchange, modelled on the Chicago Board of Trade, will begin operations with hedging instruments covering agricultural commodities, especially cotton, but will eventually trade financial derivatives such as foreign exchange products. Though banks in Istanbul offer foreign exchange hedging instruments, mostly for foreign exchange risk, Cansizlar downplayed the importance of the Istanbul market for these instruments. Note: Turkish corporates traditionally have underutilized hedging instruments, although Central Bank Governor Serdengecti has publicly urged Turkish companies to make greater use of foreign exchange hedging instruments. The Vice Chairman of Akbank, Akin Kozanoglu, recently told econoffs that use of hedging instruments is small but growing. End Note.

Stock Exchange for SME's:  
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3 (Sbu) A longer-term project, that Cansizlar says he is working on with the Turkish Union of Chambers of Commerce (TOBB) is a NASDAQ-like electronic stock exchange for small- and medium-sized businesses. Cansizlar elaborates that the goal is to move the financing of mostly Anatolian small businesses into more conventional, formal channels, such as a traded exchange. At present, Cansizlar said most of these businesses finance themselves through family savings and personal contacts. He hopes to tap into local savings and knowledge of local companies and bypass Istanbul, which he said Anatolians tend to distrust as a place to put their savings.

Transition period in Turkish Capital Markets:  
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[14.](#) (Sbu) The Izmir and SME stock exchange projects fit with the broader goal of developing Turkish capital markets. Cansizlar, echoing many financial community contacts, noted that Turkey's government securities market--with its very high returns--has crowded out private capital market development. He said only 9 percent of securities traded in Turkey were private sector securities. The pool of savings was effectively financing the government rather than private investment. The market capitalization of the Istanbul stock exchange was only about \$100 billion, and Cansizlar said the CMB is trying to convince people to put more money into capital markets.

[15.](#) (Sbu) With interest rates and inflation coming down to more reasonable levels, the Turkish financial system is poised to undergo a significant transition. Whereas up until now, the financial system has been dominated by trading in government securities, the fall in interest rates opens up

the possibility for greater interest in other instruments. Though there is no corporate bond market, for now, Cansizlar claims regulations are in place that would allow financial houses to underwrite and issue corporate bonds. Both bankers and bank regulators, however, have pointed out to econoffs that the tax system and bank capital adequacy rules create a bias in favor of holding government securities. Unlike other instruments, government securities earnings are not taxed, and banks are required to hold capital against other instruments, but not against government securities. A few days after his meeting with econoffs, Cansizlar proposed that the government impose a transaction tax on equity trading as an alternative to capital gains tax.

#### EU Harmonization and International Cooperation:

16. (Sbu) Though in an earlier meeting Cansizlar had claimed that Turkey's capital markets regulations were about 65 percent harmonized with EU regulations, in an October 4 meeting he said it would probably take two years to complete the harmonization process. He said the EU Commission will provide a twinning project by year-end. (The twinning advisor is likely to come from either the UK, Germany, Netherlands or France or there might be a consortium.) He noted that Turkey's regulatory framework is more like that in the U.S. or France or Italy, rather than the UK model of a single regulator of the entire financial sector. Cansizlar said the GOT at one point considered creating a single regulator but that he had succeeded in convincing the government that it was unwise to merge the longstanding Capital Markets Board (founded in 1981) with the more recent bank regulatory agencies, particularly when there are a number of unsettled issues in the banking sector.

17. (Sbu) Cansizlar described his apparently extensive activities in international securities regulatory bodies. He is an active participant in IOSCO, and said he chairs a committee of emerging market securities regulators.

18. (Sbu) Comment: Though Cansizlar seems sincere, financial community contacts have expressed both frustration over what they characterize as the rigidity of CMB's attitude towards new instruments, and some general skepticism about CMB's effectiveness as an organization. This view of the CMB does not seem to track with Cansizlar accomplishing his very ambitious agenda in the time frame he laid out. End Comment.

EDELMAN